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United Nations Office for Project Services

Report on the financial, administrative and operational situation of the United Nations Office for Project Services*

Summary

The present report contains information about the business strategy of the United Nations Office for Project Services (UNOPS) for 2007-2009, and to report on progress made in producing the financial statements for 2004-2005. It includes, below, a revised schedule for regular reporting to the Executive Board.

Elements of a decision

The Executive Board may wish to take note of the business strategy and indicate that it wishes to review the audited financial statements for 2004-2005 at the annual session 2007.

The Board may also wish to decide on the following schedule for regular submissions by UNOPS to the Executive Board:

First regular session: Biannual planning and budget framework (alternate years: 2008, 2010, etc.)

Annual session: Annual report, including financial results for prior year and, as of 2008, a report on contributions to results.

Second regular session: Audited financial statements (alternate years: 2008, 2010, etc.) and UNOPS management response to internal audit, annually.

*The compilation of data necessary to provide the Executive Board with the most current information has delayed submission of the present report.

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Abbreviations not defined in the text

IT: Information technology
IMIS : Integrated Management Information System

I. Introduction

1. The Executive Director of UNOPS is pleased to provide the Executive Board with information about the UNOPS business strategy for 2007-2009, and to report on progress made in producing the financial statements for 2004-2005.

2. The Executive Director also proposes a revised schedule for regular reporting to the Executive Board.

II. The business strategy

Adding further value to the United Nations system

3. The UNOPS institutional mandate has been reviewed, debated and reconfirmed by the Executive Board repeatedly over the last several years. The business strategy for 2007-2009 endorsed by the Management Coordinating Committee in November 2006 is firmly rooted in this body of Executive Board legislation. Building upon that foundation, the strategy takes conscious notice of the evolving United Nations management reform process, which holds both expectations and opportunities for UNOPS to contribute more to the work of the United Nations.

4. Therefore, this strategy document establishes the goal of confirming UNOPS – over a three-year period starting now – as a world-class provider of management services at the United Nations. The overarching objective is to contribute to expanding United Nations system capacity to implement its peacebuilding, humanitarian, and development projects.

5. UNOPS will initially focus on perfecting its project management and procurement practices, where it can build upon existing strengths and establish a reputation for consistent performance at the highest levels of internationally recognized standards. In doing so, UNOPS will emphasize a strong country-level presence, especially in conflict and post-conflict countries, and in a limited number of other locations with significant potential for contributions by UNOPS.

6. Between 2007 and 2009 UNOPS will improve its substantive expertise in several areas: It will enhance its recognized excellence in project management and procurement. It will meet the expectations raised by the designation of UNOPS as the lead entity of the United Nations in physical infrastructure[1]. And it will build its operational capacity in mine action, election and census support, support to United Nations organizations with environment mandates, and fund supervision.

7. UNOPS is committed to increasing its contributions to the United Nations system. The organization responds positively to the general call for United Nations organizations to work more effectively together, and pledges to support the current and future management reform goals of the United Nations system.

Accountability and reporting

8. Like any other public sector organization, UNOPS must demonstrate its value to its stakeholders. Performance is measured by how well UNOPS advances United Nations system goals, especially at the country level, using two separate yardsticks:

[1] Inventory, United Nations capacity in peacebuilding, Executive Office of the Secretary General, September 2006.

(a) How effectively UNOPS serves the operational needs of United Nations organizations and international financial institutions (IFIs), and

(b) How effectively UNOPS serves the needs of governments directly.

9. When UNOPS provides services to the United Nations and IFIs, it contributes to the success of clients who are accountable for the specific results of their projects. The task of UNOPS in these instances is to ensure that the organizations receive high-quality services in a timely manner, at the right cost, and to their full satisfaction. When UNOPS serves governments directly, on the other hand, it is wholly accountable for delivering project results on time and within budget. But in both cases UNOPS should report to stakeholders on how its contributions further the work of the United Nations and assist the people who are the ultimate beneficiaries.

10. As UNOPS deepens the 'culture of accountability' in its work, greater emphasis must be placed on producing accurate, timely results-oriented and financial reporting for the Executive Board and for clients. In the difficult times of recent years UNOPS has made financial reports to the Executive Board at almost every session. In future, UNOPS proposes to present financial results only once a year, at the annual session, in line with the practice followed by other United Nations entities.

11. Producing more timely results reporting will be a greater challenge for UNOPS, and expectations must be realistic. UNOPS cannot now invest as much in design and maintenance of a results-based management system as can UNDP and UNFPA. Because the very nature of UNOPS work could make attribution of results more demanding, it is recommended as a goal that a first integrated, results-oriented annual report be presented to the Executive Board in 2008. Meanwhile, UNOPS will rapidly introduce various internal tools supporting management for results.

Merger between IAPSO and UNDP

12. Over the years proposals have been made to review the benefits to the UN system of a merger between IAPSO and UNOPS[2]. The Executive Director believes the business case for such a merger is both consistent with the objectives of United Nations management and procurement reforms, and a logical convergence of complementary skills, resources, and services, especially as these two organizations are now co-located in Copenhagen. The Administrator of UNDP is currently undertaking a study on the matter with the intention of presenting it to the Executive Board soon.

Financial viability of future operations

13. The business strategy seeks to restore UNOPS financial viability gradually, focusing first on improving the quality of services and efficiency, and over time increasing business volume. While it is difficult to project future business precisely, there are promising early indications from market analysis and client contacts, as well as from new business that materialized in the final quarter of 2006. The 2006 target for business acquisitions – a good indicator for the level of operations in 2007 – was set at $713 million. At the time of writing this paper, mid-December 2006, that target had already been exceeded by $137 million, or 19 per cent. The main areas of near-term growth are procurement and infrastructure works in post-conflict countries.

[2] Procurement practices within the United Nations system, JIU/REP/2004/9

III. Financial clean-up and 2004-2005 financial statement

Certified financial statements for 2004-2005

14. During its annual session 2006, the Executive Board approved an extension until November 2006 for UNOPS to certify the financial statements for 2004-2005. That deadline was met, and the United Nations External Board of Auditors commenced its review on 27 November 2006. At the time of preparing the present paper for the Executive Board, the results of the audit were not yet known. The report of the Board of Auditors is expected to be available in March 2007. However, preliminary findings may be available at the time of the first regular session 2007 of the Board.

15. The financial statements certified by the Executive Director resulted in an operational reserve of $13.6 million (prior to adjustment). It should be noted, however, that $9.9 million in the Interfund with UNDP were still under investigation when those statements were issued. The current assumption is that a significant portion of the remaining balance cannot be resolved due to its age and the unreliability of past IT systems. Should this prove to be the case, UNDP and UNOPS would need to agree on apportioning write-offs. The statements also report significant contingent liabilities, notably with regard to budget overruns for the 2005 Afghanistan election and an expected arbitration case brought by a contractor. That, too, could potentially draw down the operational reserve to an amount to be determined in the course of 2007.

16. UNOPS recommends that the Executive Board review the audited financial statements and any update on contingent liabilities at its annual session 2007.

Level of the operational reserve

17. The present formula for calculating the operational reserve was approved by the Executive Board in its decision 2001/14. The level of the reserve is adjusted annually to represent four percent of the average of total expenditure over the previous three years. In the fall of 2006, the Executive Director engaged a specialized consultant to review the existing methodology against actual experiences gained since 2001 and explore any changes in the risk pattern facing UNOPS. The consultant concluded that the formula remained relevant and should be retained as is.

18. According to the formula, the 2006 reserve should be set at $27.4 million. While every attempt will be made to replenish the reserves rapidly to this level, it should be understood that the process could take three to five years, depending on how quickly UNOPS can restore client confidence and improve its efficiency. Indeed, seeking to achieve this goal too quickly could impair the ability of the organization to attract clients, as fees might become uncompetitive in the quest to generate a surplus, or services might suffer if required investments were neglected.

Lessons learned from the clean-up exercise

19. The financial clean-up exercise entailed significantly more work than had been anticipated. What started as a review of financial data for 2004-2005 became a major undertaking that extended back to earlier years. The single largest challenge was the reconciliation of the Interfund balance between UNDP and UNOPS for 1999-2003, which had had an incoming unreconciled balance even when the two organizations migrated to IMIS in 1999. Good progress was made over the past five months, bringing the unreconciled balance down from $59.1 million to $10.1 million – the lowest outstanding balance at the time of closing in many years.

20. The clean-up exercise has, therefore, established a new platform for future recordkeeping. Furthermore, it has contributed the additional benefit of revealing improvements needed in financial procedures to avoid a recurrence. These changes include:

(a) The Interfund operations with UNDP must be further streamlined. While the situation has greatly improved with the introduction of Atlas, additional steps are possible.

(i) Pilot work has already commenced to use a common project ID for UNDP projects implemented by UNOPS, which should eliminate the kind of reporting differences faced to date.

(ii) Agreement has been reached with UNDP to manage UNOPS own bank accounts (commonly referred to as imprest accounts) in Atlas. This will minimize reporting delays and improve controls.

(b) UNOPS has issued an organizational directive to deal with situations requiring urgent responses in crisis countries before dedicated funds are received.

(c) Through representation letters, greater formality and tighter control have been introduced for imprest accounts as well as for management of assets.

(d) A major effort to review business processes, implement standard operating procedures, and introduce learning and certification schemes has been initiated.

Regular reporting to the Executive Board

21. The Executive Director recommends continuing the established practice of presenting the audited financial statements to the Executive Board at its second regular session in alternate years. As suggested above, the 2004-2005 statements could, however, on an exceptional basis, be reviewed at the annual session 2007, due to the delay in submission.

22. With regard to the biannual planning and budget framework, a change is recommended, moving this item to the first regular session in alternate years. In other words, UNOPS would like to adopt the timeline presently used by the United Nations Children's Fund. Such a change would be justified by the need to reflect emerging operational realities as accurately as possible at the time of preparing the budget. For example, under the current schedule, the 2008-2009 budget would need to be prepared in the second quarter of 2007. This poses significant challenges to an organization with a mandate to provide services to the rest of the United Nations system and respond to unforeseeable crisis situations.

23. As mentioned above, UNOPS proposes to present a results-oriented annual report to the Executive Board at its annual session, starting in 2008.